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3/21/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 21, 1983 VOLUME XX, NUMBER 12

A Variety Of Reasons . . .

Just when it appeared that the Federal Reserve would continue to avoid responding to rapid growth in the monetary aggregates because of deposit innovation and financial deregulation—not to mention the needs of the real economy—Chairman Paul A. Volcker told the House Budget Committee in early March that speedy M1 growth is ". . . something we have to keep our eye on very closely." Needless to say, this statement promptly caused interest rates to back up, since it appeared that the central bank would again focus on the money supply and take steps to restrain its growth. But before despairing that the Fed is about to tighten the monetary reins and short-circuit the economic recovery, it pays to look at some reasons why the near-term formulation of monetary policy will probably continue to be based on an eclectic blend of considerations.

To be sure, the economy did display an unexpectedly strong momentum earlier this year, raising the prospect of a robust recovery, accelerating money supply growth and, ultimately, a reawakening of inflation expectations. However, despite the substantial increase in housing starts and new home sales, as well as the long-awaited upturn in factory orders, output and capacity utilization rates, the combination of persistent consumer caution and lofty real interest rates continues to act as a drag on the recovery. Auto sales have plateaued at about the six million unit annual rate level, non-auto retail sales are flat and, just last week, it was reported that industrial production rose by only 0.3 per cent in February month-over-month—much less than the hefty 1.3 per cent rise posted in January. What all this suggests is that after an initial burst of activity, the pace of recovery has slowed and that, if anything, additional interest rate relief may be necessary if the recovery momentum is to be maintained. Thus, for economic reasons alone, an abrupt firming of the monetary reins, by causing a sharp jump in interest rates, would probably bring the nascent economic rebound to a halt.

. . . Economic, Financial And Political . . .

But economic reasons are not the only ones forestalling a return to mechanical monetarism. Domestic as well as foreign financial considerations also warrant further interest rate relief. Only recently has corporate America been able to begin redressing its badly worn balance sheets. Company after company is now taking advantage of buoyant bond and equity markets to fund some of their substantial overhang of short-term debt. In so doing, of course, they are trying to reduce their vulnerability to abrupt changes in the availability and cost of short-term credit. Indeed, with short-term credit demands fading and the pace of long-term debt acquisitions rising, the ratio of short-term to total corporate liabilities declined modestly in both the third and fourth quarters of 1982, the first back-to-back quarterly declines in this ratio since mid-1980.

Overseas, the signs of recovery appearing on the horizon are just too fragile to endure an upward interest rate spike. With not a few developing countries still plagued by liquidity problems, only a combination of interest rate relief and the resumption of economic growth in the industrial countries can set the stage for their economic revival—a necessary precondition for an easing of their liquidity difficulties. Putting both domestic and foreign financial considerations together clearly suggests that if capital spending and exports are ever to contribute to this recovery, interest rates must at least remain stable, if not drop lower.

For their part, political considerations suggest a continuation of recent monetary policy in the coming months. With several bills slowly winding their way through Congress intended to limit the policy independence of the Fed, a firming of the credit reins now, with the recovery only beginning and lofty rates of unemployment and business failures persisting, may well hasten this process.

. . . Suggests That The Federal Reserve . . .

If these considerations are not sufficient to encourage the Fed to maintain a generally accommodative monetary policy, neither are trends in the monetary

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aggregates sufficiently convincing to warrant a firming of the credit reins. For while the growth of M1 is well above the 1983 upper target boundary of eight per cent, its recent surge should ease in coming months in light of prevailing low rates of inflation and soggy short-term business loan demand.

In the case of M2, its growth is being allowed to swing freely in February and March, thereby establishing the base from which 1983's growth paths will be calculated. Furthermore, the significance of its rapid rate of rise is clearly being distorted by the popularity of the recently-introduced money market deposit accounts, which are included in M2. Since their introduction in mid-December, the level of these accounts has ballooned to almost $300 billion, and now accounts for almost 15 per cent of the M2 money supply. And because no one is really sure where all these funds have come from, it is almost impossible for the policymakers to separate precisely the effects of shifting liquidity preferences on the part of the public from underlying money growth trends. In this environment, doing nothing may be the most appropriate course of action.

While it may be unclear as to the origins of the funds now contributing to the strong growth of the money market accounts, it is less difficult to identify some of the winners and losers in this deposit sweepstakes. One of the most noticeable

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/9/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.244	– .484	+11.711
Loans to Depository Inst.	.628	– .082	– .818
Float	2.371	– .100	– .767
Total Reserve Bank Credit	154.922	– .983	+ 9.961
Treasury Deposits with Federal Reserve Banks	3.709	+ .813	+ .079
Currency Outside Banks	136.705	+ .811	+11.733
Member Bank Reserves:			
Required	36.837	– 2.471	– 1.319
Excess (Deficiency)	.569	– .103	+ .266
Total Reserves Held	37.406	– 2.574	– 1.053
Net Free Reserves	.282	– .018	+ .968
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.925	– 5.209	+13.661
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	497.8	+ 14.8‡	+ 10.0‡
M2 (February '83)	2,047.5	+ 21.1	+ 12.8
M3 (February '83)	2,427.3	+ 9.6	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/18/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.85%	7.90%	8.00%
* Federal Agencies	8.20	8.60	9.00
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	8.33	8.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.85	9.05	9.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Apr.	8.60%
15- 29 days	8.38	May	8.60
30- 59 days	8.63	Jun.	8.60
60- 89 days	8.50	Jul.	8.60
90-179 days	8.50	Aug.	8.60
180-239 days	8.50	Sep.	8.60
240-270 days	8.50		
‡Industrial Paper—Prime			
30- 89 days	8.50%	†Federal Funds Effective Rate	8.75%
90-120 days	8.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.9	0.7	– 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	– 3.6%	3.6%
Change in Producer Prices*	Feb '83n	1.2%	– 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '83	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force†	Feb '83	10.4%	10.4%	8.6%
Personal Income*	Feb '83n	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Jan '83	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Feb '83n	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83	–$ 2.96	–$ 3.20	–$ 4.36
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83n	1,756	1,707	911
New Construction Expenditures*	Jan '83	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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winners is the hard-pressed thrift industry, which now holds $117 billion of these new accounts. Although some of this represents either the conversion of existing passbook accounts or the runoff of six-month money market certificates, these institutions did record a net deposit inflow, excluding interest credited, of $27 billion during the two months ending January 31, 1983. This offset almost completely the $29 billion net deposit loss of the first 11 months of 1982. It also helped set the stage for the revival of the housing industry.

. . . Will Remain Accommodative

The efforts by the commercial banks to market the new accounts has also met with success. These institutions hold almost $170 billion of these accounts. And, once again, while all of this is not new money, the deposit inflows have been big enough to allow the commercial banks to shed a good-sized chunk of their jumbo certificates of deposit outstanding. Since December 15, these large CDs have dropped by $38 billion, or 14 per cent. Because they are a component of M3, their runoff has contributed to the more subdued growth of this broader aggregate. Over the past three months, M3 has grown at a 9.6 per cent seasonally adjusted annual rate—less than one-half the rate of rise in M2 over the same period. This has probably added to the monetary authorities' doubts regarding the aggregates. (continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/2/83)	111,316	– 1,981	–22,778
New York City (3/2/83)	30,832	+ 19	– 2,014
Commercial Paper (3/2/83)	167,661	– 605	– 1,148*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/2/83)	218,296	+ 2,078	+18,566
New York City (3/2/83)	60,181	+ 385	+ 4,653

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/2/83)	507,846	+ 8,505	+32,017
New York City (3/2/83)	120,079	+ 4,858	+10,388

Financial Markets

	Friday 3/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.85%	+ .34	– 4.64
180-Day Bills†	9.00	+ .29	– 4.49
Longest Bills†	9.26	+ .32	– 4.65
Recent Issues:			
9⅝s 3/31/85 (When Issued)	9.85	NA	
10s 12/31/86	10.05	+ .08	
10⅞s 2/15/93	10.60	+ .06	
10⅜s 11/15/12	10.72	0.00	
Municipals:			
Bond Buyer–20 Bond Index* (3/17/83)	9.19%	– .03	– 3.80
Blue List Total ($ Million)	$1,264	+ $ 13	+ $ 330
30-Day Visible Supply ($ Million)	$3,530	– $602	+ $1,179
Total	$4,794	– $589	+ $1,609
Corporates:			
Moody's Aa Composite (3/17/83)	12.35%	– .04	– 2.84
30-Day Visible Supply ($ Million)	$1,197	+ $347	– $1,438
Stocks:			
Dow-Jones Averages:			
Industrials	1,117.74	–0–	+ 312.09
Transportation	506.27	+ 2.93	+ 177.11
Utilities	126.25	– .73	+ 19.67
65 Stocks	443.81	+ .45	+ 126.62
Standard and Poor's 500 Stocks	149.90	– 1.34	+ 39.29
N.Y.S.E. Composite Index	86.37	– .92	+ 22.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	70,710	–11,412	+ 22,032

* 46% Taxable equivalent 17.02%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/18/83	Week Ago
Overnight	8.50%	8.50%
1 month	8.75	9.06
3 month	9.00	9.19
6 month	9.38	9.38
1 year	9.50	9.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.70%
Long Term (7 to 15 yrs.)	11.80	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02121	47.14
Canada	.8164	1.2249
Denmark	.1160	8.6200
France	.1443	6.9300
Germany	.4180	2.3922
Italy	.0007017	1425.00
Japan	.004170	239.83
Mexico	.006231	160.50
Netherlands	.3762	2.6580
Switzerland	.4846	2.0635
U.K.	1.4950	.6689

While the commercial banks and thrifts have gained deposits, the money market funds have been losing them—indeed, almost nonstop in recent weeks. The assets of these funds currently total $186 billion, or $40 billion lower than mid-December levels. So, too, has the commercial paper market been contracting, with nonfinancial commercial paper declining from $51 billion in early December to $48 billion currently.

The Federal government may be a loser, too. Since the new accounts are Federally-insured and, at least initially, offered a yield substantially above three-month Treasury bill rates, it is possible that the government securities market also contributed to the success of the banks' new money market deposit accounts. If so, it may partially explain why yields on the money market accounts and Treasury bills have moved in divergent directions since mid-December. As of early March, with banks lowering their payouts and Treasury bill rates rising, the yield spread has reversed. Treasury bill rates now exceed bank money market account rates by almost 50 basis points!

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